

Private Letter Ruling: Taxpayer factoring company and single-member LLC that has elected to be disregarded for federal income tax purposes are a single financial organization entitled to apportion business income under IITA Section 304(c).

April 20, 2001

Dear:

This is in response to your letter dated March 27, 2001, in which you request a Private Letter Ruling on behalf of xxxxxxxxxxxxxxxxxxxxxx. Review of your request for a Private Letter Ruling disclosed that all information described in paragraphs 1 through 8 of subsection (b) of the enclosed copy of Section 1200.1120 appears to be contained in your request. The Private Letter Ruling will bind the Department only with respect to xxxxxxxxxxxxxxxxxxxxxx. for the issue or issues presented in this ruling. Issuance of this ruling is conditioned upon the understanding that neither xxxxxxxxxxxxxxxxxxxxxx nor a related taxpayer is currently under audit or involved in litigation concerning the issues that are the subject of this ruling request.

The facts and analysis as you have presented them are as follows:

We are writing to request a private letter ruling ("ruling"), pursuant to 2 Ill. Adm. Code Section 1200.110, on behalf of our clients, xxxxxxxxxxxxxxxxxxxxxx ("xxx"), xxxxxx xxxxxxxxxxxxxxxxxxxxxx ("xxxxx"), xx ("xxxx") and xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx (xxxx). This ruling request relates only to their Illinois income tax liabilities as more fully described below.

Background

xxx is a publicly traded corporation listed on the NASDAQ National Market System and headquartered in xxxxxxxxxxxx, Illinois. xxx is the parent company of its direct wholly owned subsidiary, xxxxx. In October 1996, xxxxx acquired all of the capital stock of xxxxxxxxxxxxxx ("xxxxxxx"), a wholesaler of janitorial and sanitary supplies. xxxxxx operates as a subsidiary of xxxxx. In April 1998, xxxxx acquired all of the capital stock of xxxxxxxxxxxxxxxxxxxxxx ("xxxxxxx"), primarily a specialty wholesaler of computer consumables, peripherals and accessories. xxxxxx operates as a subsidiary of xxxxx. In July 2000, xxxxx established xxxxxxxxxxxxxxxxxxxxxxxxxxxxxx ("xxxxx") to operate as its third-party fulfillment provider for product categories beyond office products. xxxxx operates as a subsidiary of xxxxx. Together with its subsidiaries, xxxxx is the largest general line business products wholesaler in North America. The sales of products are through national distribution networks to more than 20,000 resellers, who in turn sell directly to end-users. The product offerings consist of traditional office products, computer consumables, office furniture, facilities supplies, and business machines and audio-visual products.

Traditional office products, including both brand name and xxxxxxxx private brand products, consist of writing instruments, paper products, organizers, calendars and general office accessories. Computer consumables include computer supplies and peripherals offered to value-added computer resellers and office products dealers. Office furniture is comprised of nearly 5,000 items that include chairs, wooden and

steel desks and computer furniture. The facilities supplies are comprised of mostly janitorial and sanitation supplies, safety and security items, and shipping and mailing supplies. Business machines and audio-visual products include items from calculators to telephones and audio-visual equipment and supplies.

Business Restructuring

Over the last few years, xxx has been actively expanding its business beyond the office products market. xxxxx management has pursued solutions to promote operational and administrative synergies that positively impact shareholder value. One of the solutions that is currently being implemented involves the integration of activities related to xxxxx and its subsidiaries' accounts receivable, including revamping and reorganizing xxxxxxxx current accounts receivable asset backed securitization program and the credit and accounts receivable departments of xxxxx, xxxxxxxx, xxxxxx and xxxxx. With these two objectives in mind, xxxxx intends to create a new Illinois limited liability company, xxxx.

Under the current operating environment, the credit and accounts receivable functions are performed by each operating subsidiary. In order to centralize those functions, the credit and accounts receivable departments of xxxxx will be transferred to xxxx. In addition to performing credit and accounts receivable activities, xxxx will purchase, without recourse, the accounts receivable of xxxxx generated from the sale of products to their customers. xxxx will be a limited liability company formed under the laws of Illinois. For federal income tax purposes, xxxx will elect to be classified as an association taxable as a corporation.

In order to achieve the most favorable borrowing rates against which the accounts receivable could be used as collateral, xxxxx entered into a Receivables Securitization Program. Under this program, xxxxx sells its eligible receivables, which currently exclude xxxxxx, xxxxxxxx and xxxxx to xxxx, a wholly owned offshore, "bankruptcy remote" special purpose limited liability company. xxxx, in turn, ultimately transfers the eligible receivables to a third party, multi-seller asset-backed commercial paper program, existing solely for the purpose of issuing commercial paper. This special purpose "bankruptcy remote" entity's activities are restricted to acquiring, owning and financing accounts receivable.

Since xxxx will have operations and employees performing credit and accounts receivable activities, xxxx will not qualify for participation in xxxxxxxx Receivables Securitization Program. Therefore, xxxxx intends to contribute xxxx to xxxx, and xxxx will remain as the special purpose "bankruptcy remote" entity with the capacity to enter into the Receivables Securitization Program. For federal income tax purposes, xxxx will be treated as a disregarded entity and will be a division of xxxx.

The factoring of xxxxxxxx receivables by xxxx and the continued securitization of those receivables by xxxx will commence on May 1, 2001. The ultimate goal is to extend the

factoring of receivables by xxxx and the securitization of receivables by xxxx to additional subsidiaries, primarily xxxxxxxx, xxxxxxx and xxxxx.

Statement of Facts

The specific facts on which this ruling request is based are stated in Paragraphs 1 through 20 immediately below.

1. xxx is a publicly traded corporation commercially domiciled in Illinois and taxed under subchapter C of the Internal Revenue Code ("IRC").
2. xxxxx, together with its subsidiaries, primarily xxxxxxx, xxxxxx and xxxxx, is the largest general line business products wholesaler in the North America. The product offerings consist of traditional office products, computer consumables, office furniture, facilities supplies, and business machines and audio-visual products. xxxxx and its subsidiaries sell to more than 20,000 resellers, including office products dealers, mega-dealers, office products superstores, computer products resellers, office furniture dealers, mass merchandisers, mail order companies, sanitary supply distributors and e-commerce merchants. Independent commercial dealers and contract stationers are the most significant reseller channel for office products distribution, and are xxxxx and its subsidiaries largest business line. xxxxx and its subsidiaries concentrate their efforts on providing value-added services to resellers by differentiating themselves from competitors through a broader product offering, a higher degree of product availability, a variety of high quality customer services and their overnight distribution capabilities. xxxxx and its subsidiaries' marketing programs have relied upon two major components; catalogs for commercial dealers who then distribute the catalogs to end-customers and providing resellers with a variety of dealer support and marketing services. xxxxx and its subsidiaries employ a sales force of approximately 220 field salespersons and a telemarketing and telesales staff of 380 persons.
3. xxx and its subsidiaries file a consolidated tax return for federal corporate income tax purposes and a unitary return for Illinois corporate income tax purposes. The following companies will be included in the 2000 Illinois unitary return: xxx, xxxxx, xxxxxxx, xxxxxx, and xxxxx. xxx and its subsidiaries' apportionment in Illinois has historically been based on their respective property, payroll, and sales factors. xxx and its subsidiaries' apportionment in Illinois will be based exclusively on their sales factor for all calendar years ending on or after December 31, 2000. Under Section 304(h) of the Illinois Income Tax Act (hereafter "IITA"), the single sales factor was fully phased in for years ending on or after December 31, 2000. The apportionment used by xxx and its subsidiaries in other states in which returns are filed continues in most cases to be based on the respective entities' property, payroll, and sales factors.

4. xxxxx makes credit sales to customers and, therefore, generates accounts receivable in the normal course of its business operations. Some of these credit sales are made to Illinois customers.
5. xxxxx offers a variety of payment terms to its customers, including volume cash discounts, an advertising allowance program, early payment discounts, and other promotional discounts and rebates.
6. Some customers of xxxxx pay by check, while others pay via electronic funds transfer. Customers have on occasion paid by credit card.
7. Currently, customers' payments made by check and electronic funds transfers are remitted to one of three lockbox locations. The lockboxes are operated by two separate national banking corporations under an agreement with xxxxx. The location of each lockbox, and the determination of which lockbox is assigned to each customer, is based on minimizing the length of time that is required for customer payments to reach the banking system. One of the lockboxes is located in Illinois. Currently, the services performed by the national banking corporations at various lockboxes include opening customer remittances, depositing funds, providing an online feed of information and relaying remittance paperwork to xxxxxxx credit and accounts receivable departments.
8. xxxx will be a limited liability company formed under the laws of Illinois. xxxxx will own 100% of xxxx. For federal income tax purposes, xxxx will elect to be classified as an association taxable as a corporation. xxxx will also be treated as a corporation for Illinois income tax purposes under Section 1501(a)(4) of the IITA. xxxx will be located in Des Plaines, Illinois. Illinois will be the only state in which xxxx will have a place of business and the only state in which xxxx will have employees. The employees' duties will include credit and collection services, cash application, and oversight of the factoring and securitization program. It is anticipated that xxxx will have approximately 50 employees. xxxx will lease real and tangible personal property in Illinois.
9. xxxx is a xxxxxxxxxxxxxxxx "bankruptcy remote" special purpose limited liability company that has elected for federal tax purposes to be treated as a branch of xxxxx.
10. xxxxx will contribute xxxx to xxxx in a tax-free transfer pursuant to Section 351 of the Internal Revenue Code.
11. xxxx will purchase accounts receivable for cash and without recourse, at an arm's length discount, from xxxxx. To the extent that xxxx does not have sufficient cash to pay for new accounts receivable, payment will be made by either a promissory note or additional cash contributions. xxxxxx purchase of accounts receivable will be at fair market value, which is below their face amount. The difference between fair market value and the face amount will

consist of dilution and discount. Adjusted face value is equal to the face amount of the accounts receivable less items of dilution. Dilution represents amounts that xxxxx would not collect on a receivable in the ordinary course of business. Dilution includes items such as volume cash discounts, advertising allowances, early payment discounts and other promotional discounts and rebates, which xxxxx provides to customers. The discount will be based on the prevailing market rate of interest at the time of the sale, the due date of the accounts receivable, the creditworthiness of the customer groups, and the costs associated with the collection and the cash application process. Appropriate dilution and discount percentages to be applied to the accounts receivable purchased by xxxxx will be subject to periodic re-evaluation and revision.

12. xxxx will sell for cash and without recourse, at an arm's length discount, a portion of the receivables purchased from xxxxx to xxxx. This sale will be characterized as a sale for commercial law purposes. For federal income tax purposes, this sale will be ignored because xxxx is treated as a division of xxxx.
13. xxxx will transfer the purchased receivables to a third party, multi-seller asset backed commercial paper program.
14. There are no present plans in connection with the proposed sale of accounts receivable to xxxx to add or terminate any existing lockboxes as described in paragraph 7. However, the lockbox locations as well as the number of lockboxes could change from time to time because of changes in customer payment and banking system patterns.
15. In addition to the income which it will earn as a result of the recovery of portions of the discount on the accounts receivable purchased from xxxxx, xxxx may also earn interest on short-term investments and on intercompany loans which it makes to its affiliates. xxxxx interest income on short-term investments and on intercompany loans will be significantly less than the amount of its income which results from the recovery of portions of the discount on accounts receivable which it has purchased from xxxxx.
16. For federal income tax purposes, xxxx will be treated as having borrowed funds from the national banking corporations and not as having sold the accounts receivable for cash. Since xxxx will be treated as a division of xxxx for federal income tax purposes, all transactions entered into by xxxx will be treated for federal income tax purposes as entered into by xxxx. Furthermore, all transactions between the two entities including the sale of accounts receivable from xxxx to xxxx will be ignored for federal income tax purposes.
17. From the perspective of xxx and its subsidiaries, the asset backed securitization arrangement will continue to generate an increase in operational cash flow at a relatively low cost compared to more traditional financing methods. In addition,

it is anticipated that the financing from the national banking corporations will be off xxxxxxx balance sheet under generally accepted accounting principles.

18. Under xxx and its subsidiaries existing debt covenants, there are limitations on the dollar amount of accounts receivable available for securitization.
19. After the new factoring and securitization agreement is instituted, three lockboxes will be operated by the national banking corporations on behalf of xxxx. All other services that the national banking corporations currently perform will remain the same, but they will do so on behalf of xxxx to the extent the entity has purchased the receivables of xxxxx. In the future the amount of accounts receivable included in the asset backed securitization program may either increase or decrease resulting in a change of the ownership of the lockboxes. This will be especially true once xxxxxxx, xxxxxx and xxxxx begin selling receivables to xxxx and/or participating in the xxx arrangement.
20. Based on our interpretation of the statutory provisions in the states in which the lockboxes are located, xxxx will not be required to file income tax returns in those states, nor do we believe that xxxx will have an income tax return filing obligation in any other states.

Ruling Requests

In view of the lack of regulations and authoritative case law on the subject matter of this request, we respectfully request a ruling under 2 Ill. Adm. Code Section 1200.110. The Illinois income tax issues on which we would like to have your comment are:

1. xxxxxx status as a disregarded entity for Illinois income tax purposes.
2. xxxxx status as a financial organization under Section 1501(a)(8) of the IITA.
3. The characterization of xxxxx income under Section 304(c) of the IITA.
4. The determination of xxxxx Illinois customers for purposes of Section 304(c) of the IITA.
5. The apportionment methodology for xxxx that would result under Section 304(c) of the IITA.

Analysis [of the Taxpayer]

The following sections, numbered 1 through 5, represent our analysis of how the Illinois income tax questions should be resolved in this matter.

1. xxxxxx Status as a Disregarded Entity

xxxx will be classified as a disregarded entity under the federal check the box regulations. For federal income tax purposes, xxxx will be treated as a division of xxxx. Illinois should also treat xxxx as a division of xxxx. Illinois imposes its income tax on

individuals, corporations, trusts and estates under Section 201(a) of the IITA. The term "corporation" is defined in Section 1501(a)(4) of the IITA to include associations, joint stock companies, insurance companies, cooperatives and limited liability companies treated as corporations if so classified for federal income tax purposes. xxxx should not be a corporation as defined in Section 1501(a)(4) of the IITA, nor should it be classified as any of the other taxable entities enumerated in Section 201(a) of the IITA. For federal income tax purposes, xxxxx income and expense items, as well as assets and liabilities, will be included with those of xxxx since xxxx will be considered a division of xxxx. Under Section 203(e) of the IITA, the starting point for computing Illinois taxable income is taxable income as reported under the provisions of the IRC. Illinois does not provide for any modification for income from an interest in a limited liability company under Section 203(b) of the IITA. Thus, it appears the income from xxxx will be included in the Illinois taxable income of xxxx, and xxxx will be disregarded at the state level.

The next four ruling requests only refer to xxxx under the assumption xxxx will be treated as a disregarded entity for Illinois income tax purposes.

2. xxxxx Status as a Sales Finance Company

Under Section 1501(a)(8)(A) of the IITA, a "sales finance company" is a financial organization. The term "sales finance company" is defined under Section 1501(a)(8)(C) of the IITA as... "a person primarily engaged in the business of purchasing customer receivables...". The term "customer receivables" is defined in that section as ... "an installment, charge, credit, or similar contract or agreement arising from the sale of tangible personal property or services in a transaction involving a deferred payment price payable in one or more installments subsequent to the sale...". As previously mentioned, xxxxx business activity in Illinois will be the purchase of customer receivables from xxxxx. It appears that these receivables meet the definition of "customer receivables" under Section 1501(a)(8)(C) of the IITA. Accordingly, we believe xxxx will meet the definition of a "sales finance company."

3. The characterization of xxxxx Income

As a financial organization, xxxx would apportion its income to Illinois based on Section 304(c) of the IITA. The particular apportionment provision of Section 304(c) of the IITA, which appears to be relevant to the income of xxxx is clause (1)(C) dealing with "interest from Illinois customers." xxxxx income will be the difference between the amount paid by customers in satisfaction of their accounts receivable and the amount paid by xxxx to purchase the accounts receivable from xxxxx. Generally, this difference will equal the discount (discussed in Fact 11) from adjusted face value at which xxxx purchased the accounts receivable from xxxxx. From the perspective of the customers of xxxxx, this discount represents a measure of the value of the financing that is implicit in the deferral of the sales price for products sold by xxxxx. Since this discount will be derived from prevailing market rates of interest and the creditworthiness of the customers of xxxxx, we believe that the recovery of this discount will be interest within

the meaning of Section 304(c)(1)(C) of the IITA. Furthermore, in the Department's previously published pronouncements on the issue of interest income for purposes of Section 304(c)(1)(C) of the IITA, the Department confirmed this position and treated the income received by a factoring company as interest income within the meaning of Section 304(c)(1)(C) of the IITA.

4. xxxxx Illinois Customers

As previously stated, xxxxx has a variety of customers located throughout the United States, including Illinois. The majority of customers are corporations. Other customers are organized as partnerships or sole proprietorships. Customers may have multistate operations, with their respective headquarters located in a single state, multiple locations within a single state, or a single location.

Section 304(c)(1)(C) of the IITA requires financial organizations, such as xxxx to determine business income from sources within Illinois by including only interest from Illinois customers which is received in Illinois. There is no express statutory definition or regulatory interpretation of the term "customer" or "Illinois customer" for purposes of Section 304(c)(1)(C) of the IITA.

The Department previously has published pronouncements on the issue of "customer" and "Illinois customer" for purposes of Section 304(c)(1)(C) of the IITA. From our analysis of those pronouncements, we believe that 1) xxxx will consider the obligors on the accounts receivable which it purchases from xxxxx in making the determination of who are its customers and 2) xxxx will treat customers of xxxxx who are individual Illinois residents or persons other than the individuals whose commercial domicile is in Illinois as "Illinois customers." Though none of the Department's pronouncements on the Illinois issues discussed above are authoritative, they appear to us independently to be the most plausible construction of the statute.

5. xxxxx Apportionment of Income to Illinois

Section 304(c) of the IITA includes items of income in the numerator of the Illinois apportionment factor, if they are "from sources within this State." In the context of interest from a financial organization's customers, the concept of "income from sources within" Illinois is further defined in Section 304(c)(1)(C) of the IITA to mean "interest from Illinois customers, which ...(is)... received within this State." If this same Illinois statute were operative from the perspective of the other two states in which the lockboxes are located, xxxx would be obligated to file income tax returns in those two states as well as Illinois, notwithstanding the lack of physical presence in any of these states.

There is no express statutory definition or regulatory interpretation of what constitutes "receipt" in Illinois. The Department has, however, issued numerous private letter rulings requiring interest payments made to Illinois locations by Illinois customers to be

treated as received in Illinois for purposes of apportionment under Section 304(c)(1)(C) of the IITA.

As previously discussed, xxxx and xxxx (which will be treated as part of xxxx for federal income tax purposes) will receive interest payments from customers of xxxxx at one of three lockbox locations maintained by national banking corporations. Some payments received at the lockbox locations will be made by check and some will be made electronically. Based upon our analysis described above, payments made by Illinois customers and transmitted either electronically or mailed to the lockbox maintained in Illinois by the national banking corporations will constitute Illinois receipts. The payments made to the lockboxes located outside of Illinois will not constitute Illinois receipts.

Summary

As explained in our analysis, we anticipate that xxxx and xxxxxx Illinois income tax liability will be determined as follows. Under the Illinois Income Tax Act, xxxx will be treated as a disregarded entity, and its items of income and expense, and assets and liabilities will be included with those of xxxx in determining xxxxxx Illinois income tax liability under Section 203(e) of the IITA. Since xxxx will be in the business of purchasing customer receivables, it will be regarded as a financial organization in Illinois under Section 1501(a)(8) of the IITA. The recovery of the discount (as described above) by xxxx will properly be characterized as interest under Section 304(c)(1)(C) of the IITA. In determining its Illinois customers, xxxx will look to the customers of xxxxx. The interest payments received at the Illinois lockbox from customers of xxxxx who are individual Illinois residents or persons other than individuals who are commercially domiciled in Illinois will constitute business income from sources in Illinois under Section 304(c)(1)(C) of the IITA.

Operative Date of the Requested Ruling

xxx, xxxxx, xxxx and xxxx request that this ruling be applicable to their Illinois income tax liabilities for the tax year ending December 31, 2001 and all later tax years. There is no pending Illinois income tax audit of xxx and its subsidiaries or xxx as a group or either of them individually on the issues discussed in this ruling request.

Ruling of the Department

Characterization of xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

Section 102 of the IITA provides that:

Except as otherwise expressly provided or clearly appearing from the context, any term used in this Act shall have the same meaning as when used in a comparable context in the United States Internal Revenue Code of 1954 or any successor law or laws relating to federal income taxes and other provisions of the statutes of the United States

35 ILCS 5/1501(a)(4) of the IITA provides:

(A) The term "financial organization" means any bank, bank holding company, trust company, savings bank, industrial bank, land bank, safe deposit

from short-term investments. You have represented that its income from intercompany loans and investments will be significantly less than its income from the recovery of discount on accounts receivable, meaning that more than 50% of its income will be derived from characteristic services of a sales finance company. Under Section 1501(a)(8)(C) of the IITA, xxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxx will therefore be a sales finance company, which is a financial organization for purposes of the IITA.

Apportionment of Business Income of xx

Section 304(c)(1) of the IITA provides the basic apportionment rule for financial organizations, as follows:

Business income of a financial organization shall be apportioned to this State by multiplying such income by a fraction, the numerator of which is its business income from sources within this State, and the denominator of which is its business income from all sources. For the purposes of this subsection, the business income of a financial organization from sources within this State is the sum of the amounts referred to in subparagraphs (A) through (E) following, but excluding the adjusted income of an international banking facility as determined in paragraph (2):

- (A) Fees, commissions or other compensation for financial services rendered within this State;
- (B) Gross profits from trading in stocks, bonds or other securities managed within this State;
- (C) Dividends, and interest from Illinois customers, which are received within this State;
- (D) Interest charged to customers at places of business maintained within this State for carrying debit balances of margin accounts, without deduction of any costs incurred in carrying such accounts; and
- (E) Any other gross income resulting from the operation as a financial organization within this State. In computing the amounts referred to in paragraphs (A) through (E) of this subsection, any amount received by a member of an affiliated group (determined under Section 1504(a) of the Internal Revenue Code but without reference to whether any such corporation is an "includible corporation" under Section 1504(b) of the Internal Revenue Code) from another member of such group shall be included only to the extent such amount exceeds expenses of the recipient directly related thereto.

As this statutory provision is structured, a financial organization apportions its business income by first identifying each item of business income which is described in paragraphs (A) through (D). Those items are sourced to Illinois according to the applicable rule in paragraph (A), (B), (C) or (D), and all other items of business income are sourced to Illinois under the rule in paragraph (E). The

total of items sourced to Illinois is then divided by the total of all business income of the taxpayer from all sources, and the result is multiplied by the taxpayer's business income to determine the amount apportioned to Illinois.

You have requested a ruling that the amounts received by xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxx from customers of xxxxxxxxxxxxxxxxxxxxxxxxxxxxxx and its subsidiaries, to the extent those amounts exceed the amounts paid by xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx for the respective accounts receivable purchased from xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx, will be sourced under Section 304(c)(1)(C) as interest income.

For federal income tax purposes, the United States Supreme Court has defined "interest" to mean "compensation for the use or forbearance of money." *Deputy v. du Pont*, 308 U.S. 488, 498 (1940). Pursuant to Section 102 of the IITA, this definition of the term "interest" for purposes of the Internal Revenue Code also applies to the term "interest" as used in the IITA. As you have described the transactions by which xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx will acquire the accounts receivable from xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx, xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx will acquire all rights to payments on the receivables and will assume all responsibility for collection of the receivables, for a cash price determined by the market rate of interest at the time of the purchase, the expected time of payment on the receivables, and the creditworthiness of obligors on the receivables. Accordingly, the amounts received by xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx from xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx and its subsidiaries' customers in excess of the amounts it has paid for the respective accounts receivable will be compensation received entirely in exchange for the use of xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx money and will reflect the factors normally taken into account in determining the amount of interest payable on an advance of funds. Such amounts will therefore be interest for purposes of the IITA, and their allocation will be governed by Section 304(c)(1)(C) of the IITA.

Under Section 304(c)(1)(C) of the IITA, interest income is sourced to Illinois if it is from an Illinois customer and received in Illinois. The term "customer" is not defined in the IITA or in any relevant authority, and the definition is the proper subject for rulemaking. However, pending the promulgation of a regulatory definition, under the facts described in your request, the obligors on the accounts receivable will be customers of xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx. The obligors are all customers of xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx, which will be making credit sales in the expectation of selling the accounts receivable to xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx. Because xxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx is affiliated with xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx and will be buying the accounts receivable (rather than making a loan to xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx secured by the accounts receivable) in transactions fully anticipated at the time the accounts receivable are created, the obligors on the accounts receivable will become customers of xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxx at the time the accounts receivable are sold.

The term "Illinois customer" also is not defined in the IITA or in any relevant authority, and is also the proper subject for rulemaking. Pending the promulgation of regulations on this issue, the following principles should be applied. First, the term "Illinois customer" will include any individual customer who is a resident of Illinois and any person (other than an individual) who is commercially domiciled in Illinois. Second, if the taxpayer has no actual knowledge of the residence or commercial domicile

of a customer, the customer will be presumed (subject to rebuttal) to be an Illinois customer if the billing address of the customer is in Illinois.

The term "received in this State" in Section 304(c)(1)(C) of the IITA is undefined, and is the proper subject for rulemaking. Pending promulgation of regulations on this issue, interest from xxxxxx
xx Illinois customers will be "received in this State" if the payment is sent by the customer to a lockbox located in Illinois or the electronic funds transfer from the customer is directed to an account of xxx at a bank located in Illinois.

In summary, the amounts xxx receives from obligors on accounts receivable purchased from xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx and its subsidiaries in excess of the amounts paid by xxx for the accounts receivable will be interest income which will be sourced to Illinois if:

- (a) the customer is:
 - (i) an individual Illinois resident; or
 - (ii) a person (other than an individual) whose commercial domicile is in Illinois; or
 - (iii) (subject to rebuttal) any person whose billing address is in Illinois if xxxxxx
xx has no knowledge of the person's residence or commercial domicile; and
- (b) the customer's payment is
 - (i) sent by the customer to a lockbox in Illinois; or
 - (ii) transmitted by the customer electronically to a bank located in Illinois.

Note that payments made by a credit card company (or any other third party) on behalf of a customer are payments from the customer, and should be sourced according to the same rules as payments made directly by the customer.

The facts upon which this ruling are based are subject to review by the Department during the course of any audit, investigation or hearing and this ruling shall bind the Department only if the material facts as recited in this ruling are correct and complete. This ruling will cease to bind the Department if there is a pertinent change in statutory law, case law, rules or in the material facts recited in this ruling.

Very truly yours,

Paul Caselton
Deputy General Counsel -- Income Tax